

WACO COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2006

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WACO Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2005 Election)		
Mark Hotchkiss	President	2005
Mark Burnham	Vice President	2007
JoEllen Jepson	Board Member	2007
Jeff Temple	Board Member	2006
Shari Janecek	Board Member	2005

Board of Education (After September 2005 Election)		
Mark Hotchkiss	President	2008
Mark Burnham	Vice President	2007
JoEllen Jepson	Board Member	2007
Jeff Temple	Board Member	2006
Shari Janecek	Board Member	2008

School Officials		
Darrell Smith	Superintendent	2006
Kimberly Sheets	Business Manager	2006
Robert Meyer	District Treasurer	2006
Ron Peeler	Attorney	2006

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
WACO Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the WACO Community School District, Wayland, Iowa as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the WACO Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated October 2, 2006 on our consideration of the WACO Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 34 through 35 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise WACO Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for three years ended June 30, 2005 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 6, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

October 2, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

WACO Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- Negotiated salary increases were greater than new money brought into the system through the school budget formula.
- General Fund revenues increased from \$4,683,749 in fiscal 2005 to \$5,016,650 in fiscal 2006, while General Fund expenditures increased from \$4,811,510 in fiscal 2005 to \$5,015,747 in fiscal 2006. This resulted in a decrease in the District's General Fund balance from of \$359,680 in fiscal 2005 to a balance of \$309,485 in fiscal 2006 a 13.96% decrease from the prior year.
- The increase in General Fund revenues was attributable to an increase in state source revenues in fiscal 2006. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits. One reason the General Fund balance decreased is because the negotiated salary and benefits settlement was greater than the increase in the District's General Fund revenue for fiscal 2005.
- An increase in interest rates during the past fiscal year, combined with more cash available to be invested, resulted in interest earnings in the General Fund alone to increase from \$16,667 in fiscal year 2005 to \$34,858 in fiscal year 2006

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of WACO Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report WACO Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which WACO Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
WACO Community School District Annual Financial Report

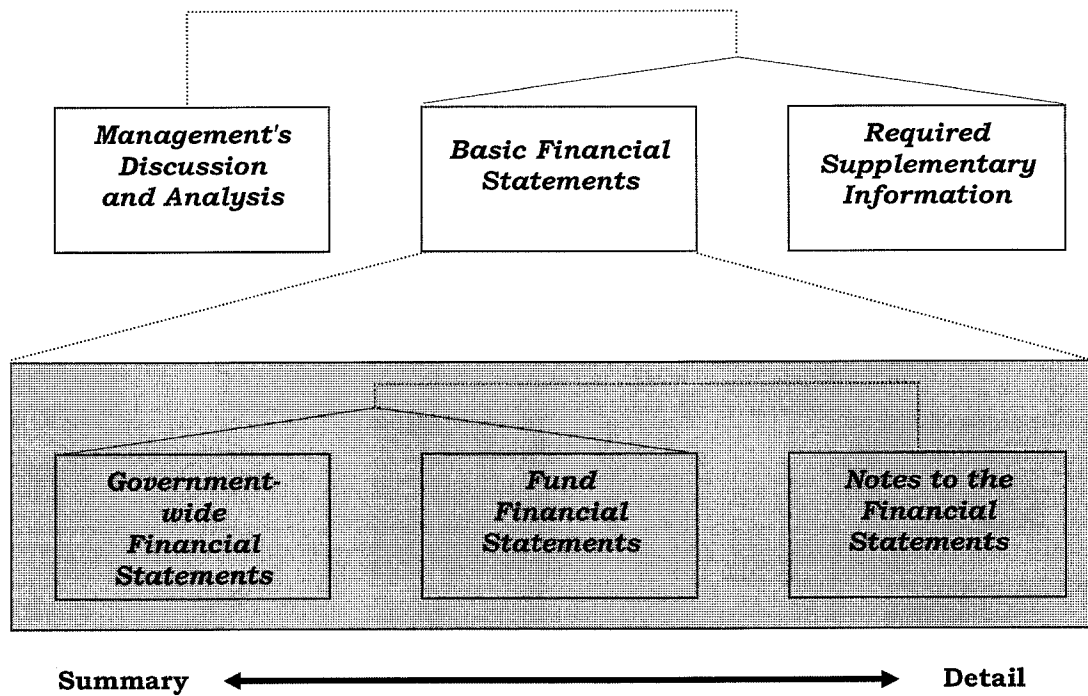


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, and Debt Service Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. This fund is the Agency Fund.

- a. Agency Funds - These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenues collected and expenditures paid for groups whose sole purpose is to benefit the District.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2006 compared to June 30, 2005.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Current and other assets	\$ 2,959,476	7,098,318	15,177	9,306	2,974,653	7,107,624	-58.15%
Capital assets	6,459,719	6,542,025	22,935	26,745	6,482,654	6,568,770	-1.31%
Total assets	9,419,195	13,640,343	38,112	36,051	9,457,307	13,676,394	-30.85%
Long-term obligations	3,742,589	7,440,380	0	0	3,742,589	7,440,380	-49.70%
Other liabilities	2,269,944	2,943,687	2,210	3,342	2,272,154	2,947,029	-22.90%
Total liabilities	6,012,533	10,384,067	2,210	3,342	6,014,743	10,387,409	-42.10%
Net assets:							
Invested in capital assets, net of related debt	3,019,544	2,811,313	22,935	26,745	3,042,479	2,838,058	7.20%
Restricted	195,811	85,606	0	0	195,811	85,606	128.74%
Unrestricted	191,307	359,357	12,967	5,964	204,274	365,321	-44.08%
Total net assets	\$ 3,406,662	3,256,276	35,902	32,709	3,442,564	3,288,985	4.67%

The District's combined net assets increased by 4.67%, or \$153,579, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$110,205, or 128.74% over the prior year. The increase is primarily a result of the increase in the Capital Projects fund balance.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased \$161,047, or 44.08%. This decrease in unrestricted net assets

was primarily a result of the District General Fund balance decreasing during the year as well as increases in early retirement and compensated absences liabilities.

Figure A-4 shows the changes in net assets for the years ended June 30, 2006 and 2005.

Figure A-4 Changes of Net Assets							
	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Revenues:							
Program revenues:							
Charges for services	\$ 735,924	728,042	112,631	110,518	848,555	838,560	1.19%
Operating grants and contributions and restricted interest	536,919	477,237	106,525	92,528	643,444	569,765	12.93%
General revenues:							
Property tax	2,089,530	2,119,867	0	0	2,089,530	2,119,867	-1.43%
Local option sales and services tax	290,149	23,421	0	0	290,149	23,421	1138.84%
Unrestricted state grants	2,197,291	1,985,692	0	0	2,197,291	1,985,692	10.66%
Other	22,124	22,183	54,187	214	76,311	22,397	240.72%
Total revenues	5,871,937	5,356,442	273,343	203,260	6,145,280	5,559,702	10.53%
Program expenses:							
Governmental activities:							
Instructional	3,631,541	3,329,678	0	0	3,631,541	3,329,678	9.07%
Support services	1,573,820	1,724,290	0	0	1,573,820	1,724,290	-8.73%
Non-instructional programs	0	62,420	270,150	204,147	270,150	266,567	1.34%
Other expenses	516,190	582,289	0	0	516,190	582,289	-11.35%
Total expenses	5,721,551	5,698,677	270,150	204,147	5,991,701	5,902,824	1.51%
Changes in net assets	150,386	(342,235)	3,193	(887)	153,579	(343,122)	144.76%
Other financing uses, net	0	(31,961)	0	0	0	(31,961)	100.00%
Changes in net assets	150,386	(374,196)	3,193	(887)	153,579	(375,083)	140.95%
Net assets beginning of year	3,256,276	3,630,472	32,709	33,596	3,288,985	3,664,068	-10.24%
Net assets end of year	\$ 3,406,662	3,256,276	35,902	32,709	3,442,564	3,288,985	4.67%

Property tax and unrestricted state grants account for 72.34% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.89% of the revenue from business type activities.

The District's total revenues were approximately \$6.15 million of which \$5.87 million was for governmental activities and less than \$0.28 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 10.53% increase in revenues and a 1.51% increase in expenses. The increase in revenues was due to increased local option sales and service tax and state grant revenues the District received during fiscal 2006. The increases in expenses related to increases in the negotiated salary and benefits as well as increases in expenses funded by grants received by the District.

Governmental Activities

Revenues for governmental activities were \$5,871,937 and expenses were \$5,721,551.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 3,631,541	2,530,557
Support services	1,573,820	1,568,289
Other expenses	516,190	349,862
Totals	<u>\$ 5,721,551</u>	<u>4,448,708</u>

- The cost financed by users of the District's programs was \$735,924.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$536,919.
- The net cost of governmental activities was financed with \$2,089,530 in property tax, \$290,149 in local option sales and services tax, \$2,197,291 in unrestricted state grants, and \$41,689 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$273,343 and expenses were \$270,150. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the WACO Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$714,118, below last year's ending fund balances of \$4,196,871. However, the primary reason for the decrease was paying off the crossover refunding bonds in the Debt Service Fund.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the product of many factors. An increase in the tuition and state aid during the year resulted in an increase in revenues. However, the increase in revenues was more than offset by the District's increase in General Fund expenditures ensuring the financial position of the District to decrease.
- The Management and Activity Fund combined balance decreased from \$181,193 in 2005, to \$166,747 in 2006, due to increased expenditures in both funds.
- The Physical Plant and Equipment Levy (PPEL) fund balance increased from \$8,973 to \$23,375, due to the fund having no expenditures for the year. The fund did have one transfer of \$21,652 to the Debt Service Fund to pay for bus leases the District has.

-
- The Debt Service fund balance decreased during the year, from \$3,623,679, to \$70,010, due to the fund paying off the crossover refunding of the 1998 G.O. Bonds Series when the bonds were called on May 1, 2006.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$32,709 at June 30, 2005 to \$35,902 at June 30, 2006, representing an increase of 9.76%.

BUDGETARY HIGHLIGHTS

Over the course of the year, WACO Community School District amended its annual budget one time for \$888,623 to reflect additional expenditures associated with all functional areas.

The District's revenues were \$137,158 more than budgeted revenues, a variance of 2.28%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$6.48 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 1.31% from last year. More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year was \$241,142.

The original cost of the District's capital assets was \$9,296,335. Governmental funds account for \$9,160,556 with the remainder of \$135,779 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$185,125 at June 30, 2005, compared to \$262,687 reported at June 30, 2006. This increase resulted from the addition of a chiller and a van to the capital assets listing.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	2006	2005	2006	2005	2006	2005	2005-06
Land	\$ 85,850	85,850	0	0	85,850	85,850	0.00%
Buildings	6,097,322	6,253,072	0	0	6,097,322	6,253,072	-2.40%
Land improvements	13,860	17,978	0	0	13,860	17,978	-0.04%
Machinery and equipment	262,687	185,125	22,935	26,745	285,622	211,870	34.81%
Total	\$ 6,459,719	6,542,025	22,935	26,745	6,482,654	6,568,770	-1.31%

Long-Term Debt

At June 30, 2006, the District had long-term debt outstanding of \$3,742,589 in general obligation and other long-term debt outstanding. This represents a decrease of 49.7% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had total outstanding general obligation bonds payable of \$3,390,000 at June 30, 2006.

The District had total outstanding bus lease payable from the Special Revenue, Physical Plant and Equipment Levy Fund of \$118,974 at June 30, 2006.

The District had total outstanding early retirement payable from the Special Revenue, Management Fund of \$222,638 at June 30, 2006.

The District also had total outstanding compensated absences payable from the General Fund of \$10,977 at June 30, 2006.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total
	2006	2005	Change
General obligation bonds	\$ 3,390,000	7,125,000	-52.4%
Bus leases	118,974	178,990	-33.5%
Early retirement	222,638	136,390	63.2%
Compensated absences	10,977	0	100.0%
Total	\$ 3,742,589	7,440,380	-49.7%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.

-
- During the fiscal 2006 year the District reduced general obligation debt by \$3,735,000 through the calling of the crossover bond refunding agreement. The District also terminated one bus lease during the year and bought the bus outright. This further lessened the District's debt load for the years to come.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Carrie Coble, District Business Manager, WACO Community School District, 706 N. Pearl St., Wayland, Iowa, 52654.

BASIC FINANCIAL STATEMENTS

WACO COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments	\$ 653,417	10,027	663,444
Receivables:			
Property tax:			
Delinquent	50,115	0	50,115
Succeeding year	2,136,524	0	2,136,524
Accounts	4,283	0	4,283
Due from other governments	115,137	0	115,137
Inventories	0	5,150	5,150
Capital assets, net of accumulated depreciation(Note 6)	6,459,719	22,935	6,482,654
TOTAL ASSETS	9,419,195	38,112	9,457,307
LIABILITIES			
Accounts payable	108,834	0	108,834
Interest payable	24,586	0	24,586
Deferred revenue:			
Succeeding year property tax	2,136,524	0	2,136,524
Other	0	2,210	2,210
Long-term liabilities(Note 5):			
Portion due within one year:			
General obligation bonds payable	225,000	0	225,000
Bus lease payable	15,930	0	15,930
Early retirement	34,107	0	34,107
Compensated absences	10,977	0	10,977
Portion due after one year:			
General obligation bonds payable	3,165,000	0	3,165,000
Bus lease payable	103,044	0	103,044
Early retirement	188,531	0	188,531
TOTAL LIABILITIES	6,012,533	2,210	6,014,743
NET ASSETS			
Investment in capital assets, net of related debt	3,019,544	22,935	3,042,479
Restricted for:			
Salary improvement program	532	0	532
Talented and gifted	2,593	0	2,593
Capital projects	144,501	0	144,501
Other special revenue purposes	48,185	0	48,185
Unrestricted	191,307	12,967	204,274
TOTAL NET ASSETS	\$ 3,406,662	35,902	3,442,564

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

WACO COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	Total
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 2,303,739	584,323	327,278	(1,392,138)	0	(1,392,138)
Special instruction	687,733	143,270	40,183	(504,280)	0	(504,280)
Other instruction	640,069	5,930	0	(634,139)	0	(634,139)
	<u>3,631,541</u>	<u>733,523</u>	<u>367,461</u>	<u>(2,530,557)</u>	<u>0</u>	<u>(2,530,557)</u>
Support services:						
Student services	104,916	0	0	(104,916)	0	(104,916)
Instructional staff services	101,694	0	0	(101,694)	0	(101,694)
Administration services	686,802	0	0	(686,802)	0	(686,802)
Operation and maintenance of plant services	365,115	0	0	(365,115)	0	(365,115)
Transportation services	315,293	2,401	3,130	(309,762)	0	(309,762)
	<u>1,573,820</u>	<u>2,401</u>	<u>3,130</u>	<u>(1,568,289)</u>	<u>0</u>	<u>(1,568,289)</u>
Other expenditures:						
Facilities acquisitions	73,268	0	0	(73,268)	0	(73,268)
Long-term debt interest	116,726	0	0	(116,726)	0	(116,726)
AEA flowthrough	166,328	0	166,328	0	0	0
Depreciation (unallocated)*	159,868	0	0	(159,868)	0	(159,868)
	<u>516,190</u>	<u>0</u>	<u>166,328</u>	<u>(349,862)</u>	<u>0</u>	<u>(349,862)</u>
Total governmental activities	5,721,551	735,924	536,919	(4,448,708)	0	(4,448,708)
Business-Type activities:						
Non-instructional programs:						
Nutrition services	270,150	112,631	106,525	0	(50,994)	(50,994)
Total business-type activities	<u>270,150</u>	<u>112,631</u>	<u>106,525</u>	<u>0</u>	<u>(50,994)</u>	<u>(50,994)</u>
Total	<u>\$ 5,991,701</u>	<u>848,555</u>	<u>643,444</u>	<u>(4,448,708)</u>	<u>(50,994)</u>	<u>(4,499,702)</u>
General Revenues and Transfers:						
Property tax levied for:						
General purposes				\$ 1,738,930	0	1,738,930
Debt services				314,722	0	314,722
Capital outlay				35,878	0	35,878
Local option sales and services tax				290,149	0	290,149
Unrestricted state grants				2,197,291	0	2,197,291
Unrestricted investment earnings				41,689	239	41,928
Gain on sale of equipment				2,850	0	2,850
Transfers				(53,948)	53,948	0
Other				31,533	0	31,533
Total general revenues				<u>4,599,094</u>	<u>54,187</u>	<u>4,653,281</u>
Changes in net assets				150,386	3,193	153,579
Net assets beginning of year				<u>3,256,276</u>	<u>32,709</u>	<u>3,288,985</u>
Net assets end of year				<u>\$ 3,406,662</u>	<u>35,902</u>	<u>3,442,564</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

WACO COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	Manage- ment Levy	Capital Projects	Nonmajor Governmental Funds	Total
ASSETS					
Cash and pooled investments	314,252	116,652	133,058	89,455	653,417
Receivables:					
Property tax:					
Delinquent	39,824	1,910	0	8,381	50,115
Succeeding year	1,736,349	65,000	0	335,175	2,136,524
Accounts	0	0	0	4,283	4,283
Due from other funds	3,726	0	0	47,910	51,636
Due from other governments	55,784	0	59,353	0	115,137
TOTAL ASSETS	\$ 2,149,935	183,562	192,411	485,204	3,011,112
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 104,101	0	0	4,733	108,834
Due to other funds	0	0	47,910	3,726	51,636
Deferred revenue:					
Succeeding year property tax	1,736,349	65,000	0	335,175	2,136,524
Total liabilities	1,840,450	65,000	47,910	343,634	2,296,994
Fund balances:					
Reserved for:					
Debt service	0	0	0	70,010	70,010
Salary improvement program	532	0	0	0	532
Talanted and gifted	2,593	0	0	0	2,593
Unreserved:					
Undesignated	306,360	118,562	144,501	71,560	640,983
Total fund balances	309,485	118,562	144,501	141,570	714,118
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,149,935	183,562	192,411	485,204	3,011,112

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

WACO COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2006

Total fund balances of governmental funds (page 16)	\$ 714,118
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	6,459,719
Accrued interest payable in long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(24,586)
Long-term liabilities, including bonds payable, early retirement and compensated absences are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(3,742,589)</u>
Net assets of governmental activites (page 14)	<u><u>\$ 3,406,662</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

WACO COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	General	Manage- ment Levy	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:					
Local sources:					
Local tax	\$ 1,659,326	79,604	290,149	350,600	2,379,679
Tuition	526,416	0	0	0	526,416
Other	99,653	8,453	0	177,579	285,685
State sources	2,547,656	0	0	0	2,547,656
Federal sources	183,599	0	0	0	183,599
Total revenues	5,016,650	88,057	290,149	528,179	5,923,035
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	2,206,297	2,586	0	0	2,208,883
Special instruction	685,666	0	0	0	685,666
Other instruction	454,366	0	0	185,703	640,069
	3,346,329	2,586	0	185,703	3,534,618
Support services:					
Student services	104,327	0	0	0	104,327
Instructional staff services	101,528	0	0	0	101,528
Administration services	623,529	49,586	0	0	673,115
Operation and maintenance of plant services	396,947	26,731	0	0	423,678
Transportation services	276,759	14,070	47,816	0	338,645
	1,503,090	90,387	47,816	0	1,641,293
Other expenditures:					
Facilities acquisitions	0	0	73,268	0	73,268
Long-term debt:					
Principal	0	0	0	225,199	225,199
Interest and fiscal charges	0	0	0	151,514	151,514
AEA flowthrough	166,328	0	0	0	166,328
	166,328	0	73,268	376,713	616,309
Total expenditures	5,015,747	92,973	121,084	562,416	5,792,220
Excess(deficiency) of revenues over(under) expenditures	903	(4,916)	169,065	(34,237)	130,815
Other financing sources(uses):					
Sale of equipment	2,850	0	0	0	2,850
Payment from escrow	0	0	0	(3,562,470)	(3,562,470)
Transfer in	0	0	0	69,562	69,562
Transfer out	(53,948)	0	(47,910)	(21,652)	(123,510)
Total other financing sources(uses)	(51,098)	0	(47,910)	(3,514,560)	(3,613,568)
Net change in fund balances	(50,195)	(4,916)	121,155	(3,548,797)	(3,482,753)
Fund balance beginning of year	359,680	123,478	23,346	3,690,367	4,196,871
Fund balance end of year	\$ 309,485	118,562	144,501	141,570	714,118

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

WACO COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds (page 18) \$ (3,482,753)

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Depreciation expense exceeded capital outlay expenditures in the current year, as follows:

Capital expenditures	\$ 155,026	
Depreciation expense	<u>(237,332)</u>	(82,306)

Net change in Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis. (24,642)

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.
 Repaid 3,795,016

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 34,788

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund.

Early retirement	\$ (86,248)	
Compensated Absences	(10,977)	
ISEBA assessment	<u>7,508</u>	<u>(89,717)</u>

Changes in net assets of governmental activities (page 15) \$ 150,386

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

WACO COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2006

	<u>School Nutrition</u>
ASSETS	
Cash and cash equivalents	\$ 10,027
Inventories	5,150
Capital assets, net of accumulated depreciation(Note 6)	<u>22,935</u>
TOTAL ASSETS	<u>38,112</u>
LIABILITIES	
Deferred revenues	<u>2,210</u>
TOTAL LIABILITES	<u>2,210</u>
NET ASSETS	
Investment in capital assets	22,935
Unrestricted	<u>12,967</u>
TOTAL NET ASSETS	<u>\$ 35,902</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

WACO COMMUNITY SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUNDS
 YEAR ENDED JUNE 30, 2006

	Business-Type Activities: Enterprise Fund School Nutrition	Governmental Activities: Internal Service Fund
OPERATING REVENUE:		
Local sources:		
Charges for services	\$ 112,631	236,601
OPERATING EXPENSES:		
Non-instructional programs:		
Salaries	75,665	0
Benefits	42,645	261,243
Services	5,611	0
Supplies	142,419	0
Depreciation	3,810	0
TOTAL OPERATING EXPENSES	270,150	261,243
OPERATING LOSS	(157,519)	(24,642)
NON-OPERATING REVENUES:		
Interest income	239	0
State sources	3,136	0
Federal sources	103,389	0
TOTAL NON-OPERATING REVENUES	106,764	0
Net loss before other financing sources	(50,755)	(24,642)
OTHER FINANCING SOURCES		
Transfer in	53,948	0
Change in net assets	3,193	(24,642)
Net assets at beginning of year	32,709	24,642
Net assets end of year	\$ 35,902	0

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

WACO COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	Business-Type Activities: Enterprise Fund School Nutrition	Governmental Activities: Internal Service Fund
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 110,557	0
Cash received from miscellaneous operating activities	942	236,601
Cash payments to employees for services	(118,310)	(262,786)
Cash payments to suppliers for goods or services	(139,580)	0
Net cash used in operating activities	(146,391)	(26,185)
Cash flows from non-capital financing activities:		
Transfer from General Fund	53,948	0
State grants received	3,136	0
Federal grants received	94,876	0
Net cash provided by non-capital financing activities	151,960	0
Cash flows from investing activities:		
Interest on investments	239	0
Net increase(decrease) in cash and cash equivalents	5,808	(26,185)
Cash and cash equivalents at beginning of year	4,219	26,185
Cash and cash equivalents at end of year	\$ 10,027	0
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (157,519)	(24,642)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Commodities consumed	8,513	0
Depreciation	3,810	0
Increase in inventories	(63)	0
Decrease in accounts payable	0	(1,543)
Decrease in deferred revenue	(1,132)	0
Net cash used in operating activities	\$ (146,391)	(26,185)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:		
Current assets:		
Cash and pooled investments	\$ 10,027	0

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2006, the District received Federal commodities valued at \$8,513.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

WACO COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND
JUNE 30, 2006

	<u>Agency</u>
ASSETS	
Cash and pooled investments	<u>\$ 55,834</u>
LIABILITIES	
Due to other groups	<u>\$ 55,834</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

WACO COMMUNITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

(1) **Summary of Significant Accounting Policies**

The WACO Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the Cities of Wayland, Crawfordsville, and Olds Iowa, and the predominate agricultural territory in Washington, Louisa, Jefferson and Henry Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, WACO Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The WACO Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Washington, Louisa, Jefferson and Henry County Assessors' Conference Board.

B. Basis of Presentation

Government-wide financial statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Management Fund is used to account for the District's early retirement program and property insurance.

The Capital Projects Fund is used to account for all resources used in the acquisition of capital facilities.

The District's proprietary funds are the School Nutrition Fund, and the Internal Service Fund. The School Nutrition Fund is used to account for the food service operations of the District. The Internal Service Fund is used to account for the District's self funded insurance plan.

The District also reports a fiduciary fund that focuses on net assets and changes in net assets. The District's fiduciary fund is as follows:

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the "economic resources measurement focus" and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board

Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 5,000
Buildings	5,000
Land improvements	5,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	5,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-12 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used

to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the Government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, the District did not exceed budgeted amounts.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district. At June 30, 2006, the District had no investments.

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2006 is as follows:

Receivable Fund	Payable Fund	Amount
Debt Service	Capital Projects	\$ 47,910
General	Special Revenue, Physical Plant and Equipment Levy	3,726
Total		<u>\$ 51,636</u>

(4) Transfers

The detail of transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
Nutrition	General	\$ 53,948
Debt Service	Special Revenue, Physical Plant and Equipment Levy	21,652
Debt Service	Capital Projects	47,910
Total		<u>\$ 123,510</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(5) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2006 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 7,125,000	0	3,735,000	3,390,000	225,000
Bus leases	178,990	0	60,016	118,974	15,930
Early retirement	136,390	103,373	17,125	222,638	34,107
Compensated absences	0	10,977	0	10,977	10,977
Total	<u>\$ 7,440,380</u>	<u>114,350</u>	<u>3,812,141</u>	<u>3,742,589</u>	<u>286,014</u>

General Obligation Bonds

Details of the District's June 30, 2006 general obligation bonded indebtedness is as follows:

Year Ending June 30,	Interest Rates	Bond Issue of April 1, 2005			
		Principal	Interest	Total	
2007	3.50 %	\$ 225,000	126,297	351,297	
2008	3.75	235,000	118,422	353,422	
2009	3.75	245,000	109,610	354,610	
2010	4.00	255,000	100,422	355,422	
2011	3.35	265,000	90,223	355,223	
2012	3.45	275,000	81,345	356,345	
2013	3.55	285,000	71,857	356,857	
2014	3.65	300,000	61,740	361,740	
2015	3.75	305,000	50,790	355,790	
2016	3.85	320,000	39,353	359,353	
2017	3.95	335,000	27,033	362,033	
2018	4.00	345,000	13,800	358,800	
Total		\$ 3,390,000	890,892	4,280,892	

Bus Leases

During the year ended June 30, 2006, the District terminated one bus lease agreement with International and bought the bus. The remaining lease was kept with Blue Bird Body Company. Payments for the lease agreement will be paid by the Special Revenue, Physical Plant and Equipment Levy Fund. Details of the lease agreement with Blue Bird are as follows:

Year Ending June 30,	Interest Rate	Bus lease of September 10, 2004			
		Principal	Interest	Total	
2007		\$ 9,596	3,857	13,453	
2008		70,604	3,396	74,000	
Total		\$ 80,200	7,253	87,453	

Year Ending June 30,	Interest Rate	Bus lease of September 10, 2004			
		Principal	Interest	Total	
2007	4.81 %	\$ 6,334	1,865	8,199	
2008	4.81	32,440	1,561	34,001	
Subtotal		\$ 38,774	3,426	42,200	
Total		\$ 118,974	10,679	129,653	

Early Retirement

The District offers a voluntary early retirement plan to its certified employees, classified employees and administrative staff. Eligible employees must have completed fifteen years of continuous service to the District in order to qualify for supplemental benefits. Employees must complete an application which is subject to approval by the Board of Education. Early retirement incentives for each eligible employee are on the "per diem" basis based on the current contract at the time of retirement. "Per diem" is defined as per day pay based upon contract days and annual salary. Early retirement expenditures for the year ended June 30, 2006 totaled \$17,125.

(6) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 85,850	0	0	85,850
Total capital assets not being depreciated	85,850	0	0	85,850
Capital assets being depreciated:				
Buildings	8,016,457	0	0	8,016,457
Land improvements	107,072	0	0	107,072
Machinery and equipment	796,151	155,026	0	951,177
Total capital assets being depreciated	8,919,680	155,026	0	9,074,706
Less accumulated depreciation for:				
Buildings	1,763,385	155,750	0	1,919,135
Land improvements	89,094	4,118	0	93,212
Machinery and equipment	611,026	77,464	0	688,490
Total accumulated depreciation	2,463,505	237,332	0	2,700,837
Total capital assets being depreciated, net	6,456,175	(82,306)	0	6,373,869
Governmental activities capital assets, net	\$ 6,542,025	(82,306)	0	6,459,719
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 135,779	0	0	135,779
Less accumulated depreciation	109,034	3,810	0	112,844
Business-type activities capital assets, net	\$ 26,745	(3,810)	0	22,935

Depreciation expense was charged by the District as follows:

Governmental activities:	
Support services:	
Operation and maintenance of plant services	11,327
Transportation	66,137
	<u>77,464</u>
Unallocated depreciation	159,868
Total governmental activities depreciation expense	<u>\$ 237,332</u>
Business-type activities:	
Food services	<u>\$ 3,810</u>

(7) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$167,742, \$156,617 and \$153,501 respectively, equal to the required contributions for each year.

(8) Risk Management

WACO Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$166,328 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

WACO COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2006

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 3,191,780	112,870	3,304,650	3,099,544	3,099,544	205,106
State sources	2,547,656	3,136	2,550,792	2,631,728	2,631,728	(80,936)
Federal sources	183,599	103,389	286,988	274,000	274,000	12,988
Total revenues	5,923,035	219,395	6,142,430	6,005,272	6,005,272	137,158
Expenditures						
Instruction	3,534,618	0	3,534,618	4,286,402	4,300,000	765,382
Support services	1,641,293	0	1,641,293	1,829,022	2,400,000	758,707
Non-instructional programs	0	270,150	270,150	272,218	460,000	189,850
Other expenditures	616,309	0	616,309	548,735	665,000	48,691
Total expenditures	5,792,220	270,150	6,062,370	6,936,377	7,825,000	1,762,630
Excess(deficiency) of revenues over(under) expenditures	130,815	(50,755)	80,060	(931,105)	(1,819,728)	1,899,788
Other financing sources, net	(3,613,568)	53,948	(3,559,620)	(4,100)	(4,100)	(3,567,820)
Excess(deficiency) of revenues and other financing sources over(under) expenditures	(3,482,753)	3,193	(3,479,560)	(935,205)	(1,823,828)	(1,668,032)
Balance beginning of year	4,196,871	32,709	4,229,580	596,482	596,482	3,633,098
Balance end of year	\$ 714,118	35,902	750,020	(338,723)	(1,227,346)	1,965,066

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

WACO COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$888,623.

OTHER SUPPLEMENTARY INFORMATION

WACO COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006

	Special Revenue Funds			Total	
	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
ASSETS					
Cash and pooled investments	\$ 48,635	26,243	74,878	14,577	89,455
Receivables:					
Property tax:					
Current year delinquent	0	858	858	7,523	8,381
Succeeding year	0	36,677	36,677	298,498	335,175
Accounts	4,283	0	4,283	0	4,283
Due from other funds	0	0	0	47,910	47,910
TOTAL ASSETS	\$ 52,918	63,778	116,696	368,508	485,204
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 4,733	0	4,733	0	4,733
Due to other funds	0	3,726	3,726	0	3,726
Deferred revenue:					
Succeeding year property tax	0	36,677	36,677	298,498	335,175
Total liabilities	4,733	40,403	45,136	298,498	343,634
Fund balances:					
Reserved for Debt Service	0	0	0	70,010	70,010
Unreserved, undesignated	48,185	23,375	71,560	0	71,560
Total fund balances	48,185	23,375	71,560	70,010	141,570
TOTAL LIABILITIES AND FUND BALANCES	\$ 52,918	63,778	116,696	368,508	485,204

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

WACO COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2006

	Special Revenue Funds				Total
	Physical	Total			Other
	Plant and	Special			Nonmajor
	Student	Equipment	Revenue	Debt	Governmental
	Activity	Levy	Funds	Service	Funds
REVENUES:					
Local sources:					
Local tax	\$ 0	35,878	35,878	314,722	350,600
Other	176,173	176	176,349	1,230	177,579
TOTAL REVENUES	176,173	36,054	212,227	315,952	528,179
EXPENDITURES:					
Current:					
Instruction:					
Other instruction	185,703	0	185,703	0	185,703
Long-term debt:					
Principal	0	0	0	225,199	225,199
Interest and fiscal charges	0	0	0	151,514	151,514
TOTAL EXPENDITURES	185,703	0	185,703	376,713	562,416
Excess(deficiency) of revenues over(under) expenditures	(9,530)	36,054	26,524	(60,761)	(34,237)
Other financing sources(uses):					
Transfers in	0	0	0	69,562	69,562
Transfers out	0	(21,652)	(21,652)	0	(21,652)
Payment from escrow	0	0	0	(3,562,470)	(3,562,470)
Total other financing sources(uses)	0	(21,652)	(21,652)	(3,492,908)	(3,514,560)
Excess(deficiency) of revenues and other financing sources over(under) expenditures and other financing uses	(9,530)	14,402	4,872	(3,553,669)	(3,548,797)
Fund balance beginning of year	57,715	8,973	66,688	3,623,679	3,690,367
Fund balance end of year	\$ 48,185	23,375	71,560	70,010	141,570

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

WACO COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Desktop publishing	\$ 733	0	0	733
Elementary vending	148	2,477	1,942	683
Elementary student leadership	511	0	0	511
After school program	4,383	0	90	4,293
6th grade overnight	0	495	235	260
Speech and drama	1,156	937	886	1,207
Spanish trip	5,103	8,533	11,778	1,858
Musical	0	1,879	1,879	0
Strings resale	(92)	888	443	353
Instrumental music	0	1,240	1,240	0
Vocal music	485	3,527	3,387	625
Booster club	59	2,937	3,036	(40)
Safe schools committee	160	544	535	169
Elementary activity	8,361	8,737	9,587	7,511
Secondary activity	5,624	5,394	9,711	1,307
High school annual	11,931	7,615	11,851	7,695
Class of 2005	313	0	313	0
Class of 2006	2,311	9,280	11,456	135
Class of 2007	0	10,555	9,069	1,486
Sr high student council	8,975	9,756	9,280	9,451
Leo club	312	1,792	1,663	441
After prom committee	827	5,395	5,686	536
National honor society	324	2,133	1,687	770
Football cheerleaders	(662)	1,506	675	169
Basketball cheerleaders	767	2,936	3,295	408
Drill team	(277)	2,494	1,754	463
Boys basketball	6,662	15,269	19,687	2,244
Football	(9,303)	17,522	6,911	1,308
Baseball	0	7,105	6,810	295
Boys track	0	2,373	2,373	0
Boys golf	0	620	620	0
Wrestling	0	3,738	3,738	0
Girls basketball	5,000	7,220	9,948	2,272
Volleyball	2,701	8,168	10,592	277
Softball	645	8,358	8,780	223
Girls track	0	849	849	0
Interest	0	631	597	34
Activity tickets	0	11,704	11,704	0
Vending machines	558	1,566	1,616	508
Total	\$ 57,715	176,173	185,703	48,185

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

WACO COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUND
 YEAR ENDED JUNE 30, 2006

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Music Boosters				
ASSETS				
Cash and investments	\$ 4,875	19,214	9,694	14,395
LIABILITIES				
Due to other groups	\$ 4,875	19,214	9,694	14,395
SEISC Super Conference				
ASSETS				
Cash and investments	\$ 20,805	33,961	31,701	23,065
LIABILITIES				
Due to other groups	\$ 20,805	33,961	31,701	23,065
Elementary PTO				
ASSETS				
Cash and investments	\$ 3,730	16,570	14,100	6,200
LIABILITIES				
Due to other groups	\$ 3,730	16,570	14,100	6,200
WACO Wrestling Club				
ASSETS				
Cash and investments	\$ 1,277	12,018	10,058	3,237
LIABILITIES				
Due to other groups	\$ 1,277	12,018	10,058	3,237
Athletic Boosters				
ASSETS				
Cash and investments	\$ 4,876	33,361	29,300	8,937
LIABILITIES				
Due to other groups	\$ 4,876	33,361	29,300	8,937
Totals - All Agency Funds				
ASSETS				
Cash and investments	\$ 35,563	115,124	94,853	55,834
LIABILITIES				
Due to other groups	\$ 35,563	115,124	94,853	55,834

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

WACO COMMUNITY SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN NET ASSETS
 INTERNAL SERVICE FUND
 YEAR ENDED JUNE 30, 2006

	<u>Self-funded Health Insurance</u>
OPERATING REVENUES:	
Local sources:	
Employee contributions	\$ 36,877
Board contributions	199,724
TOTAL OPERATING REVENUE	<u>236,601</u>
OPERATING EXPENDITURES	
Non-instructional:	
Benefits	261,243
TOTAL OPERATING EXPENDITURES	<u>261,243</u>
CHANGE IN NET ASSETS	(24,642)
NET ASSETS BEGINNING OF YEAR	<u>24,642</u>
NET ASSETS END OF YEAR	<u><u>\$ 0</u></u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

WACO COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2006	2005	2004	2003
Revenues:				
Local sources:				
Local tax	\$ 2,379,679	2,143,288	2,141,503	2,001,084
Tuition	526,416	485,178	443,289	327,364
Other	285,685	265,047	234,952	202,284
Intermediate sources	0	0	200	5,189
State sources	2,547,656	2,288,938	2,229,048	2,366,641
Federal sources	183,599	173,991	186,798	187,373
Total	<u>\$ 5,923,035</u>	<u>5,356,442</u>	<u>5,235,790</u>	<u>5,089,935</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 2,208,883	2,120,822	2,198,706	2,132,919
Special instruction	685,666	582,360	569,022	509,589
Other instruction	640,069	625,012	554,342	525,456
Support services:				
Student services	104,327	95,489	95,975	90,054
Instructional staff services	101,528	102,614	102,622	92,844
Administration services	673,115	668,083	546,735	492,724
Operation and maintenance of plant services	423,678	378,193	368,170	337,437
Transportation services	338,645	237,125	269,558	299,520
Non-instructional:				
Food service	0	62,516	49,007	33,616
Other expenditures:				
Facilities acquisitions	73,268	60,950	0	0
Long term debt:				
Principal	225,199	224,852	185,000	195,000
Interest and fiscal charges	151,514	173,963	182,187	191,638
AEA flow-through	166,328	157,060	160,044	172,979
Total	<u>\$ 5,792,220</u>	<u>5,489,039</u>	<u>5,281,368</u>	<u>5,073,776</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and
on Compliance and Other Matters

Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Education of the
WACO Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of WACO Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated October 2, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered WACO Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether WACO Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Members American Institute & Iowa Society of Certified Public Accountants

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of WACO Community School District and other parties to whom WACO Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of WACO Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

October 2, 2006

WACO COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

- I-A-06 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

- I-B-06 Gate Admissions - It was noted during the audit that the District uses pre-numbered tickets for state tournament district and regional games but not for regular season games.

Recommendation - The District should establish reconciliation procedures for gate admissions to all games held on District grounds not just state tournament games. The reconciliation should include the issuance of pre-numbered tickets and the reconciling of the admissions to the number of tickets issued.

Response - We will discuss this matter with the Athletic Director and attempt to implement a pre-numbered ticket procedure.

Conclusion - Response accepted.

- I-C-06 Student Activity Fund - We noted during the audit that the District was placing Target donations into the Student Activity Fund.

Recommendation - Donations made to a District should be placed in the most appropriate place based upon the donor request. Target donates to schools for materials and supplies. The most logical place to record the revenue and subsequent purchase would be the General Fund. The District should record future donations from Target in the General Fund.

Response - Target donation checks will be placed into the General Fund.

Conclusion - Response accepted.

I-D-06 Purchase Orders - We noted during our audit that purchase orders in the General Fund were not used in thirty-one of the thirty-four disbursements checked. For all disbursements checked in the Nutrition Fund and the PPEL Fund, none had a purchase order. Fourteen of eighteen disbursements from the Student Activity Fund did not have a purchase order. It was also noted that in the Student Activity Fund that four of eighteen disbursements did not have an invoice. Also, in the PPEL Fund, the purchase of a new van by the District had no supporting documentation at all.

Recommendation - The District should review procedures in place with regard to use of purchase orders, placing the order and subsequent payment. The District should require purchase orders be completed prior to ordering. The purchase order when properly completed provides a document which shows authorization of order and which line item account will be affected. By properly using the purchase order system, the District may be able to more easily track budgeted expenditures and encumbered amounts toward the specific items. Supporting documentation for all District purchases should be retained by the District.

Response - We will review our current procedures and attempt to have all purchase orders in place prior to placing orders.

Conclusion - Response accepted.

I-E-06 Compensated Absences - During the year the District began accruing compensated absences for District employees without a policy regarding how payouts will occur and what criteria is required by employees to receive compensated absence benefits.

Recommendation - The District should develop a policy regarding how compensated absences payouts will occur and the criteria that needs to be met so there is consistency in how benefits are handled.

Response - We will review our current Board policy and made amendments as necessary to develop consistency.

Conclusion - Response accepted.

WACO COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Statutory Reporting

- II-A-06 Certified Budget - District disbursements for the year ended June 30, 2006, did not exceed the amount budgeted.
- II-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-D-06 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Mike Massey, Custodian Owner of Mike's Service Stop	Batteries	\$108

In accordance with the Attorney General's opinion dated July 2, 1990, the above transactions with the secretary and bus driver owners do not appear to represent a conflict of interest.

- II-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-06 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-J-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.